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NEW APPLICATION

Arizona Corporation Commission

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BEFORE THE ARIZONA CORPORATION COMMISSION

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Chairman

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Commissioner

WILLIAM A. MUNDELL
Commissioner

MIKE GLEASON
Commissioner

JEFF HATCH-MILLER
Commissioner

IN THE MATTER OF THE JOINT
APPLICATION OF UNS GAS, INC. AND
CITIZENS COMMUNICATIONS
COMPANY FOR APPROVAL OF
ADJUSTMENT TO PURCHASED GAS
ADJUSTOR SURCHARGE

Docket No: G-01032E-03-0515

JOINT APPLICATION FOR
ADJUSTMENT TO PGA
SURCHARGE

UNS Gas, Inc. ("UNS") and Citizens Communications Company
("Citizens") (collectively, "Joint Applicants"), through this filing, request the Arizona
Corporation Commission's (the "Commission") approval of a new PGA surcharge to be
effective October 1, 2003. The surcharges approved and currently in effect for Citizens
Communications Company's Northern Arizona Gas Division and Santa Cruz Gas Division
in Decision No. 64054 (as amended by Decision No. 65384) will expire on September 30,

1 2003. Citizens and UNS, which, through its parent, plans to close the purchase of
2 Citizens' gas operations by August 11, 2003, and will consolidate the two divisions into
3 one operating company as approved by the Commission in Decision No. 66028, request
4 this approval to allow for the recovery of the undercollected PGA bank balance that is
5 projected to exist as of October 1, 2003.

6 **I. BACKGROUND**

7 **A. The History of the PGA Mechanism**

8 The Commission has recognized for many years the benefits of adjustor
9 mechanisms, such as the purchased gas adjustor ("PGA"). The PGA mechanism provides
10 local distribution companies ("LDC") with the opportunity to maintain their financial
11 integrity during times of rising gas prices, while conserving resources that would
12 otherwise be used for more frequent and costly general rate cases. Recognizing the
13 benefits of a PGA mechanism, the Commission established a special working group in
14 1998 to address the volatility of natural gas prices and to explore the possibility of
15 developing more uniform PGA mechanisms. Following the submission of
16 recommendations from the working group and the Commission Staff, the Commission
17 mandated a new PGA mechanism based upon a twelve-month banded rolling average gas
18 cost. *See* Decision No. 61225 at 2:27-28. Under that Decision, although a PGA rate could
19 change monthly, it could not change by more than seven cents (\$0.07) over any twelve-
20 month period. *See* Decision No. 61225 at 3:25-4:2. The Commission also set a PGA bank
21 balance threshold for each of the affected utilities. When a utility's bank balance exceeds
22 the stated threshold (either positively or negatively), the utility is required to meet with the
23 Commission Staff and to file for a PGA rate adjustment or to explain why an adjustment is
24 unnecessary. *See* Decision No. 61225 at 3:11-21. For Citizens' Northern Arizona Gas
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1 Division, the Commission set the threshold at \$4.2 million. *See* Decision No. 61225 at
2 3:2-7. For the Santa Cruz Gas Division, it set the threshold at \$250,000.¹ *Id.*

3 As required by Decision No. 61225, the Commission Staff filed a report
4 regarding the PGA mechanism in September 2000. This report recommended increasing
5 the cumulative change in monthly PGA rates during a 12-month period from seven cents
6 (\$0.07) to ten cents (\$0.10).² It also recommended allowing interest accruals on the bank
7 balance to be added into the calculation of the 12-month rolling average cost of gas. The
8 Commission approved these recommendations in Decision No. 62994.

9 **B. Citizens' Approved PGA Surcharges**

10 Despite the use of the PGA mechanism, the rising cost of natural gas caused
11 the bank balances of Citizens' Northern Arizona Gas Division and Santa Cruz Gas
12 Division to grow to approximately \$37 million and \$2 million respectively by May 30,
13 2001. To allow for the recovery of its undercollected PGA bank balances, Citizens sought
14 approval of a PGA surcharge for its Northern Arizona Gas Division and Santa Cruz Gas
15 Division in July 2001. Finding the proposal reasonable in light of high natural gas prices,
16 the Commission approved a variable PGA surcharge for a twenty-four (24) month period
17 effective October 1, 2001. *See* Decision No. 64054. Following the approval of the
18 variable surcharge, the Commission again revised the structure of the surcharge in
19 November 2002. *See* Decision No. 65384.

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¹ Because Unisource will consolidate the Northern Arizona Gas Division and the Santa
24 Cruz Gas Division following the closing of the purchase, the Joint Applicants have
25 assumed for purposes of this filing that the new threshold will be \$4,450,000.

26 ² In Decision No. 66028, the Commission approved an increase in the fluctuation limit
from \$0.10 to \$0.15 for the twelve months following the approval of the settlement. *See*
Decision No. 66028 at 17:22-26.

1 **II. REQUEST FOR NEW PGA SURCHARGE**

2 **A. Surcharge Rate**

3 The high cost of natural gas has resulted in continued undercollected bank
4 balances for the Northern Arizona Gas Division and the Santa Cruz Gas Division. As a
5 result, the PGA bank balance as of October 1, 2003 is projected to be \$7,152,339. This
6 balance reflects the consolidation of the Northern Arizona Gas Division and the Santa
7 Cruz Gas Division by UNS, as approved in Decision No. 66028.

8 The necessary surcharge for UNS to recover the undercollected bank balance
9 by October 1, 2004 is \$0.1155 per therm. This surcharge is necessary to allow UNS to
10 recover the high cost of natural gas. UNS proposes that this surcharge remain constant
11 over this twelve-month period to allow UNS to recover as a pass-through the actual cost of
12 natural gas as reflected in the undercollected bank balance. Without this surcharge, the
13 undercollected PGA bank balance will continue to grow and will lead to greater instability
14 in gas rates and even greater rate surcharges in the future. UNS submits that, given the
15 high levels of recent gas prices, the proposed surcharge is reasonable and should be
16 approved.

17 **B. Impact of Surcharge on Commodity Rates**

18 Customers in Citizens' Northern Arizona Gas Division currently pay a total
19 gas commodity rate of \$0.5758 per therm, which includes a base rate of \$0.2500 and a
20 combined PGA and surcharge rate of \$0.3258 per therm. Similarly, customers in the
21 Santa Cruz Gas Division pay a total gas commodity rate of \$0.6210 per therm. This rate
22 includes a base rate of \$0.3884 and a combined PGA and surcharge rate of \$0.2326 per
23 therm. Under the surcharge proposed in this Joint Application, the total commodity rate
24 for the combined gas divisions will be approximately \$0.6208 per therm. This rate reflects
25 the new \$0.4000 base rate, the \$0.1155 requested surcharge, and an estimated average
26 PGA rate for the months November 2003 through March 2004 of \$0.1053 per therm.

1 **III. CONCLUSION**

2 For the foregoing reasons, the Joint Applicants request approval of a new
3 PGA surcharge of \$0.1155 per therm for a twelve-month period effective October 1, 2003
4 to allow for the recovery of the undercollected PGA bank balance.

5 Joint Applicants also respectfully request that this matter be processed in an
6 expedited manner and, if possible, that the matter be heard at the September 9, 2003 Open
7 Meeting so that the requested surcharge may take effect in October. To the extent it is
8 necessary to extend any time limitations to allow this matter to be heard at the September
9 9, 2003 Open Meeting, Joint Applicants stipulate through this filing that those time
10 limitations may be extended.

11 RESPECTFULLY SUBMITTED this 25th day of July, 2003.

12
13 LEWIS AND ROCA LLP

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21 Original and thirteen (13) copies of
22 the foregoing hand-delivered
23 this 25th day of July, 2003, to:

24 The Arizona Corporation Commission
25 Docket Control
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Phoenix, Arizona 85007

LEWIS
AND
ROCA
LLP
LAWYERS

1 Copy of the foregoing hand-delivered
2 this 35th day of July, 2003, to:

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